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Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 EUR-12 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 INT-05 /099 W
----------191738Z 130510 /42
R 190101Z MAR 77
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 9905
INFO AMCONSUL MEDAN
AMCONSUL SURABAYA

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E.O. 11652: N/A
TAGS: ECRP, EINV, EMIN, ID
SUBJECT: INDONESIA-RTZ ON VERGE OF THIRD-GENERATION MINING AGREEMENT

REF : JAKARTA 0632

1. SUMMARY: GOI AND P.T. RIO-TINTO INDONESIA, INDONESIAN SUBSIDIARY OF RIO-TINTO ZINC OF U.K. EXPECT NEXT WEEK TO INITIAL CONTRACT OF WORK FOR BASE METAL PROSPECTING AND MINING VENTURE IN SULAWESI, AND ARE HOPEFUL THAT FINAL SIGNING WILL TAKE PLACE BEFORE INDONESIAN GENERAL ELECTIONS IN MAY. RTI-GOI AGREEMENT IS EXPECTED TO BECOME MODEL FOR SO-CALLED THIRD-GENERATION OF MINING CONTRACTS. END SUMMARY.

2. AS REPORTED REFTEL GOI HAS BEEN ENGAGED IN NEGOTIATION OF MINING CONTRACT WITH RIO-TINO INDONESIA (RTI) FOR PAST SEVERAL MONTHS. BOTH SIDES ARE CONFIDENT THAT NEGOTIATIONS HAVE BEEN CROWNED WITH SUCCESS AND THAT AGREEMENT WILL BE INITIALED WITHIN NEXT FEW DAYS. THEY ARE HOPEFUL AGREEMENT CAN BE SIGNED PRIOR TO MAY ELECTIONS, BUT THERE IS SOME CONCERN THAT THIS MAY BE DELAYED DUE TO NEED TO CONVENE
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APPROPRIATE PARLIAMENTARY COMMITTEE FOR BRIEFING ON TERMS OF CONTRACT DURING THIS PERIOD OF PARLIAMENTARY RECESS. DEPARTMENT OF MINING OFFICIAL SAID THAT IF PARLIAMENTARY COMMITTEE CANNOT BE CONVENED SIGNING MIGHT BE DELAYED UNTIL EARLY 1978. (PARLIAMENT IS NOT SCHEDULED TO CONVENE AGAIN UNTIL OCTOBER 1977.)

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3. ALTHOUGH THIRD-GENERATION CONTRACT WILL SHOW SOME TOUGHENING OF TERMS FROM SECOND-GENERATION CONTRACTS, RTI OFFICIAL EXPRESSED SATISFACTION AND STATED THAT TERMS OF CONTRACT JUST "A LITTLE BIT BETTER" THAN TERMS AVAILABLE IN OTHER DEVELOPING COUNTRIES. NEW FEATURES NOT IN SECOND-GENERATION CONTRACT INCLUDE: (A) EXCESS OF SUPER PROFITS TAX -- EXCESS PROFITS ARE DEFINED AS PROFITS EXCEEDING 15 PERCENT OF TOTAL INVESTMENT; THESE PROFITS WILL BE CALCUALTED ON BASIS OF THREE-YEAR MOVING AVERAGE AND TAXED AT A 60 PERCENT RATE, VALUE OF INVESTMENT WILL BE INDEXED ON BASIS OF UN STATISTICS; (B) OTHER CONTROVERSIAL FEATURE OF NEGOTIATION WAS EVALUATION OF 51 PERCENT SHARE OF RTI TO BE ACQUIRED BY INDONESIAN INTERESTS WITHIN TEN YEARS AFTER BEGINNING OF PRODUCTION -- SHARES WILL BE EVALUATED BY MUTUALLY AGREED UPON THIRD-PARTY AT EITHER BOOK VALUE OR A MULTIPLE OF HISTORICAL PROFITS (FIVE-YEAR AVERAGE) WHICHEVER IS HIGHER. RTI OBLIGATED TO MAKE GOOD FAITH EFFORT TO FIND INDONESIAN PURCHASER. THIRD CONTROVERSIAL ISSUE, CALCUALTION OF ROYALTIES, SETTLED TO RTI'S SATISFACTION AS BASED ON METAL RECOVERED AFTER PROCESSING RATHER THAN METAL CONTENT OF ORE AS GOI HAD PROPOSED (JUST AS IN SECOND-GENERATION CONTRACT).

4. EMBOFF WAS GIVEN LOOK AT LIST OF EIGHT FOREIGN COMPANIES WHO HAVE EXPRESSED INTEREST IN NEGOTIATING THIRD-GENERATION CONTRACT WITH GOI; NO "HOUSEHOLD NAMES" ON LIST. COMPANIES APPEARED TO BE PREDOMINANTLY HONG KONG- AND ASUTRALIAN-BASED. RTI EXECUTIVES ANDDEPARTMENT OF MINING OFFICIALS HAVE EX-PRESSED BELIEF THAT ONCE RTI CONTRACT IN PUBLIC DOMAIN
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LARGER MULTINATIONALS MAY SHOW RENEWED INTEREST IN INDONESIA.

5. COMMENT: FIVE-YEAR HIATUS BETWEEN LAST SECOND-GENERATION CONTRACT AND THIS FIRST THIRD-GENERATION CONTRACT SEEMS TO HAVE BROUGHT INDONESIA REMARKABLY LITTLE IN THE WAY OF NEW ADVANTAGES. RTI SAYS IT HAD AGREED TO PRINCIPLE OF 51 PERCENT OWNERSHIP BY INDONESIAN INTERESTS AS FAR BACK AS 1973; SO EXCESS PROFITS TAX IS ONLY REALLY CONTROVERSIAL FEATURE OF CONTRACT FOR THEM. FOREIGN EXCHANGE REGIME WHICH WAS AREA OF GREAT CONTROVERSY WITHIN GOI HAS ENDED UP, EXCEPT FOR LEGAL FICATIONS, APPROXIMATELY THE SAME AS THAT WHICH EXISTED UNDER THE SECOND-GENERATION CONTRACT. BANK INDONESIA WILL MAKE A TINY 3/8 OF 1 PERCENT ON EARNINGS OF FOREIGN EXCHANGE DEPOSITED ABROAD--MEANWHILE, DEVELOPMENT OF INDONESIAN MINING INDUSTRY HAS BEEN DELAYED FOR FIVE YEARS.
NEWSOM

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Message Attributes

Automatic Decaptioning: X
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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